Singapore | January 2022

Research

Emerging anew

A 5-year Singapore property market outlook

Introduction

Singapore is emerging from the COVID-19 pandemic stronger than ever. Over the next five years, the island city-state is expected to enjoy a growth phase: economic expansion is expected to average around 3% per annum; wage growth could more than double that of the last five years; and the city will reposition itself as a hub for innovation, technology and sustainability.

Against this backdrop, we expect to see these drivers propelling Singapore's property market forward over the next five years.

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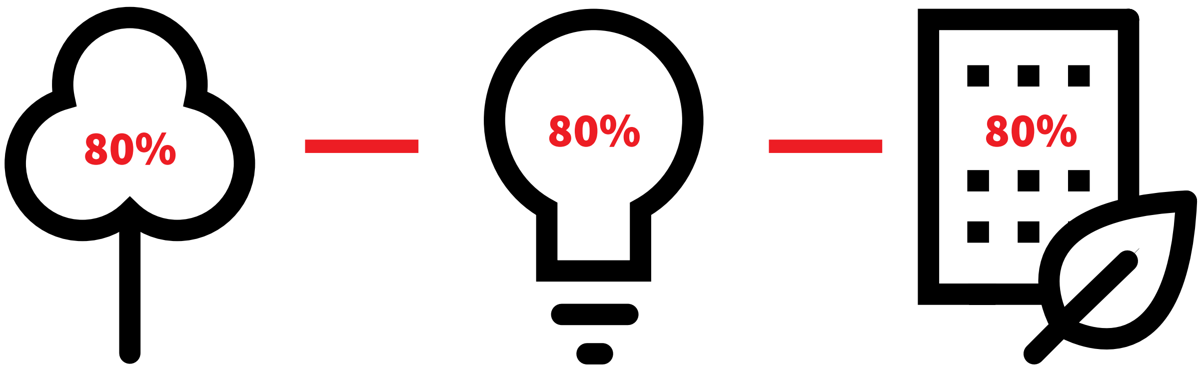
01
Decentralised and decarbonised offices

New green building standards and new second CBD to drive change

In the coming years, we expect enhanced regulations to spur more developers to retrofit, redevelop or divest their older buildings to decarbonise their portfolios. With regulators offering attractive incentives to improve energy efficiency, a critical mass of occupiers and developers are changing their requirements and reviewing their investment strategies respectively.

The fourth edition of the Singapore Green Building Master Plan (SGBMP) announced in 2021 has articulated the Singapore government's lofty goal of "80-80-80 in 2030".

Figure 1
80-80-80 in 2030



of buildings to be green by 2030:

- **Step up the pace** of greening our building.
- **Raise the sustainability standards** of our buildings.

of new developments to be SLE from 2030:

- **Mainstream Super Low Energy (SLE) performance of new buildings** so that from 2030, large majority of new developments would be achieving today's SLE energy performance standards.

EE improvement (from 2005 levels) by 2030:

- **Push boundaries in energy efficiency for best in class green buildings** through research, innovation and implementation.

Source: Building and Construction Authority, Singapore Green Building Council

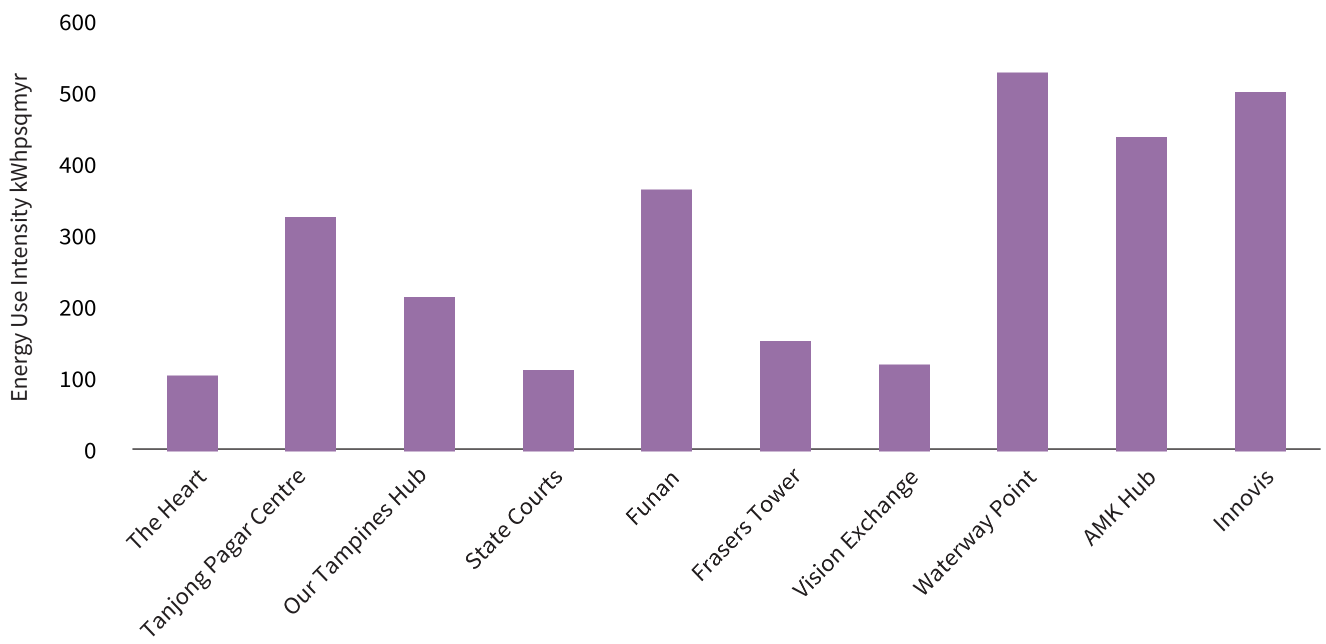
Accordingly, the Building and Construction Authority (BCA) pushed through a refreshed Green Mark 2021 scheme in November 2021. New and existing buildings undergoing retrofitting will now need to fulfil higher energy performance standards when applying to be certified green. They must also place greater emphasis on other sustainability outcomes, including designing for maintainability, reducing embodied carbon across the building's life cycle and creating a healthier environment for building occupants.

In 4Q21, BCA began publishing individual building energy performance statistics, in a bid to help occupiers choose more sustainable buildings and nudge landlords to invest in building upgrades that improve efficiency.

In the same quarter, the BCA and the Urban Redevelopment Authority (URA) jointly launched the Built Environment Transformation Gross Floor Area (GFA) Incentive Scheme. Under this scheme, developers and building owners can enjoy up to 3% bonus GFA beyond the Master Plan Gross Plot Ratio if they achieve enhanced Construction Industry Transformation Map standards in areas of digitalisation, productivity and sustainability when developing private sites of at least 5,000 sqm GFA. For development proposals on existing sites that are outside the Government Land Sales programme, the scheme will be in effect for a period of five years from 24 November 2021 to 23 November 2026.

A key tool for decarbonisation has been decentralisation. We foresee the government prioritising investment in and development of new offices at Jurong Lake District for the next two decades. Envisaged as car-lite with super low-energy buildings and centralised infrastructure, Jurong Lake District will be developed into the largest of all business districts outside the CBD and serve as a model for urban sustainability. We expect Jurong Lake District to attract innovative, technology-driven and sustainability-focused occupiers as they come together to create a greener way to live, work and play.

Figure 2
Building energy performance data for selected properties in 2020



Note: The lower the energy use intensity, the less energy used per square metre.
Source: BCA

02

A structural change in CBD office rents

CBD office rents to enjoy a long runway of growth

CBD office stock will be limited, with no new Government Land Sale scheme office sites expected in the CBD for the next ten years. At the same time, landlords are being incentivised to redevelop existing CBD office buildings into mixed-use projects with more residential components.

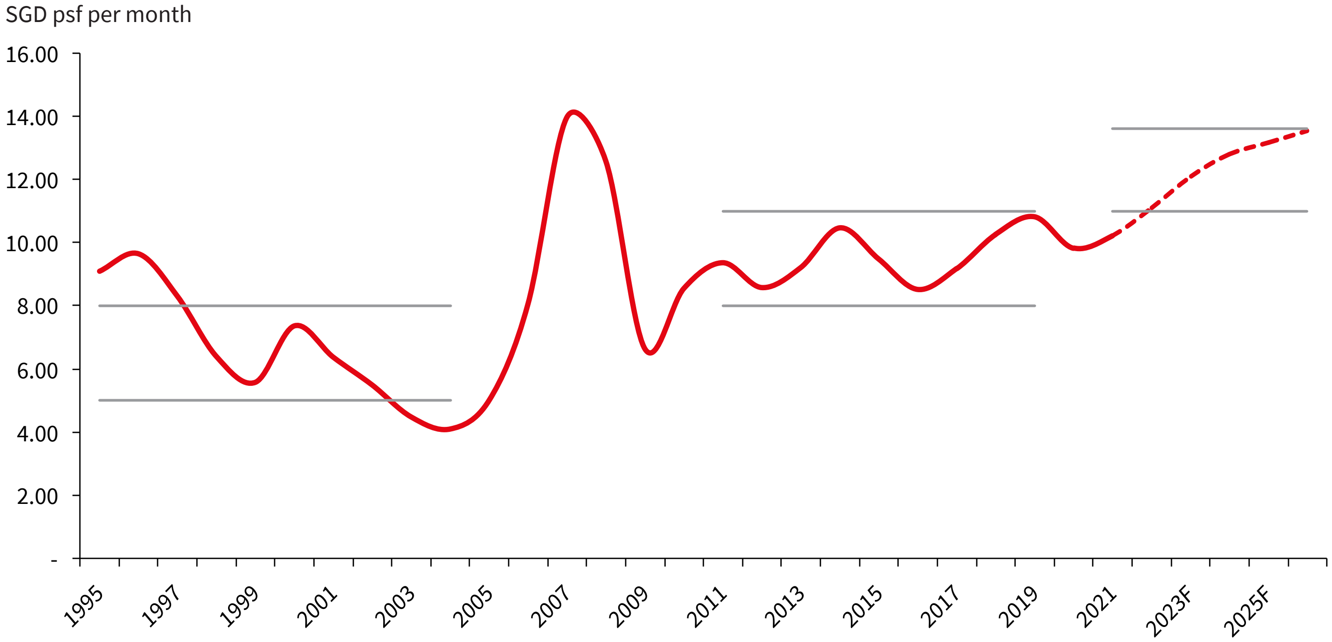
Over the last three decades, Singapore office rents have made step changes as structural transformations elevated the economy:

- **In the 1990s**
  Recognising the need to diversify its manufacturing and exports-dominated economy, Singapore started to grow modern services as a twin engine of growth alongside manufacturing. The government also took progressive steps to liberalise Singapore's financial services and insurance industries. This new economic direction stoked occupier confidence and drove CBD Grade A rents to breach the single-digit territory for the first time in history.

- **In the 2000s**
  The economy entered another growth phase as Singapore adopted a productivity-driven growth model to overcome resource constraints. The country promoted itself as a financial and professional services hub to attract more global headquarters, investment banking and wealth management operations. Singapore's progress towards "digitalisation" and "servicisation" within its manufacturing sector also augured well for its information & communications and business services sectors. This pivot generated a new wave of demand for office space and CBD Grade A rents rose for 17 consecutive quarters to reach a new peak in 2008.

- **Over the next decade**
  Singapore is positioning itself as a global hub for innovation, technology and sustainability to stay competitive in the new economy. This will ensure growth in demand for office space. However, with limited future new office supply in the CBD, CBD Grade A rents will be under immense upward pressure, tapering only when new supply outside the CBD, such as in the Jurong Lake District, comes on stream. The risk of government intervention to ease CBD rent growth could be low considering its decentralisation drive and this could culminate in CBD Grade A rent hitting uncharted territory.

Figure 3
Singapore CBD Grade A office rents between 1995 and 2026F



Source: JLL Research

03

Retail assets to benefit from higher wage inflation

Increased purchasing power to drive retail sector

We expect wages in Singapore to rise two to three times faster in the coming five years, compared to the last five years, boosting the purchasing power of domestic consumers.

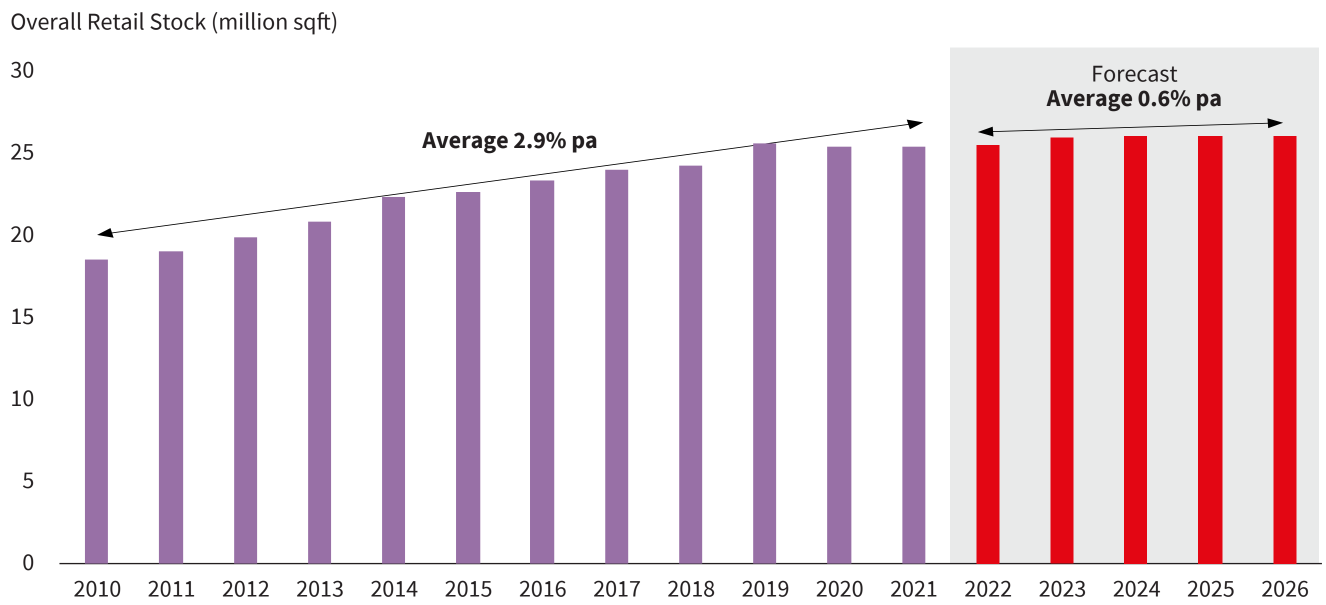
- Oxford Economics forecasts wages and salaries to rise by a compound annual growth rate (CAGR) of 6.1% from 2022 to 2026. In comparison, wages and salaries rose 2.5% CAGR from 2016 to 2021.
- Government efforts to uplift salaries of lower-wage workers via the Progressive Wage Model (PWM) is a key contributing factor. By 2023, eight in ten low-wage workers will be covered by the PWM.[1]

[1] Source: "Progressive wages to be extended to 8 in 10 lower-wage workers by 2023", Channel News Asia, 30 August 2021

Aside from the extension of the PWM, general labour shortages arising from border restrictions and salary increments in industries that fared well during the COVID-19 pandemic, including the high-technology and pharmaceutical sectors, will also add to the general growth in wages and salaries.

Wage inflation and rising consumer demand with sustained economic growth in an endemic COVID 19 norm should drive retail sales growth in the medium-term. Coupled with a tight supply pipeline of quality retail space (of less than 1.0% of existing stock annually over the next five years) and rising occupancy rates in many retail malls in good locations, rents of prime floor space in retail assets could rise by an above-trend annual average of about 2.9% between 2022 and 2026 (see Figure 5).

Figure 4
Modest new retail supply between 2022 and 2026



Source: JLL Research

Capital values of prime floor retail space could appreciate by an above-trend annual average of about 3.2% in the medium-term on the back of a rising rent outlook and marginal yield compression, given the scarcity of tradeable assets and market liquidity, notwithstanding potential interest rate increases.

The PWM stipulates minimum wages to be paid to employees in certain economic and occupational sectors. In the seven years since implementation, the PWM has been rolled out to 28,000 workers in the cleaning, security, landscaping and lift & escalator maintenance sectors, earning at or below the 20th percentile of wages in Singapore.

In August 2021, the government took a decisive step to widen the coverage of PWM to three new sectors (namely, retail, food services and waste management) in an accelerated timeline. Progressive wages will also be introduced to certain occupations that cut across sectors. Specifically, progressive wages will be extended to 234,000 workers in seven sectors, as well as administrators and drivers across all sectors by 2023. This will constitute more than 80% of the 283,000 low-wage workers in Singapore.

Figure 5
Prime and suburban rents*

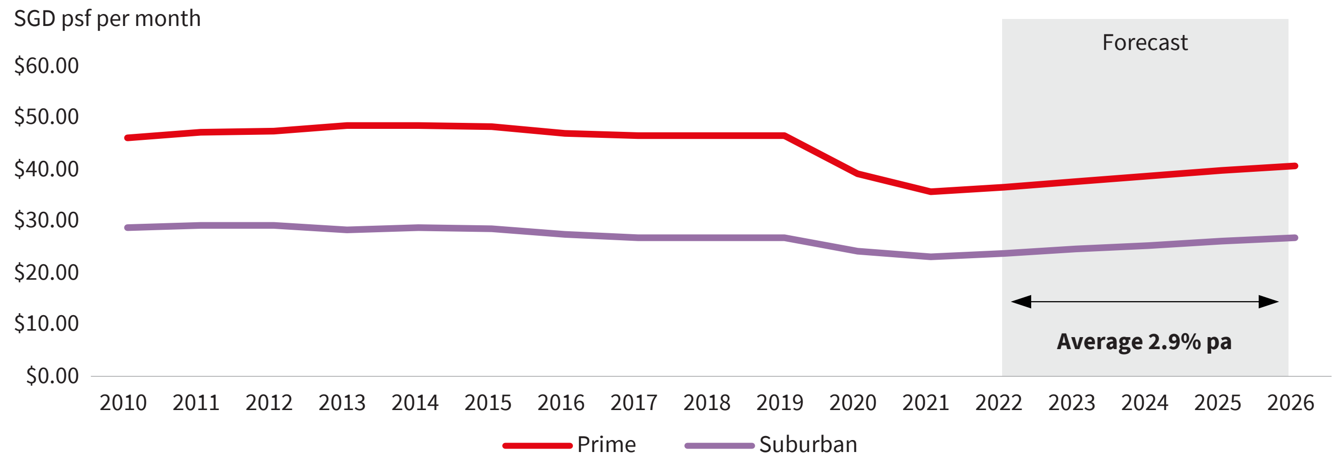
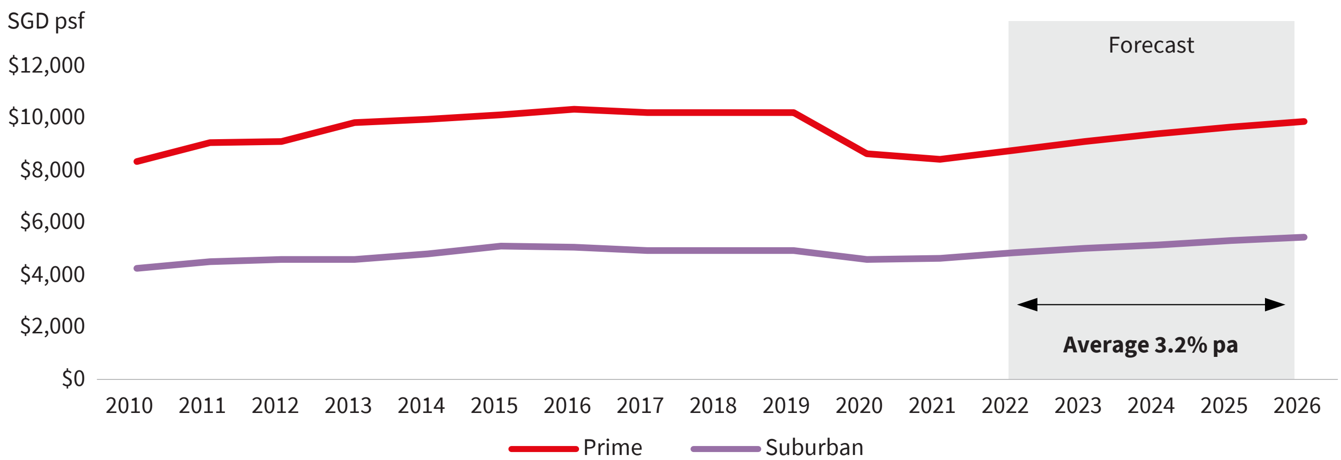


Figure 6
Prime and suburban capital values*



*Refer to rates of prime floor space
Source: JLL Research

04

Private residential prices to appreciate alongside economic and wage growth

Private residential assets remain a good store of wealth

Economic growth and rising incomes are likely to sustain demand for private homes in the medium-term with prices predicted to rise by 2% to 5% per annum, on average.

Additionally, the risk of a property bubble is negligible as the Singapore government proactively intervenes to ensure prices grow in tandem with economic fundamentals.

On 16 December 2021, the government raised Additional Buyer's Stamp Duty (ABSD) rates, reduced Total Debt Servicing Ratio (TDSR) and lowered the loan limit for public housing. This was in response to a buoyant residential market characterised by high transaction volumes and strong price increases despite the economic impact of COVID-19. There was a risk of a destabilising correction if prices ran ahead of economic fundamentals and remained unchecked.

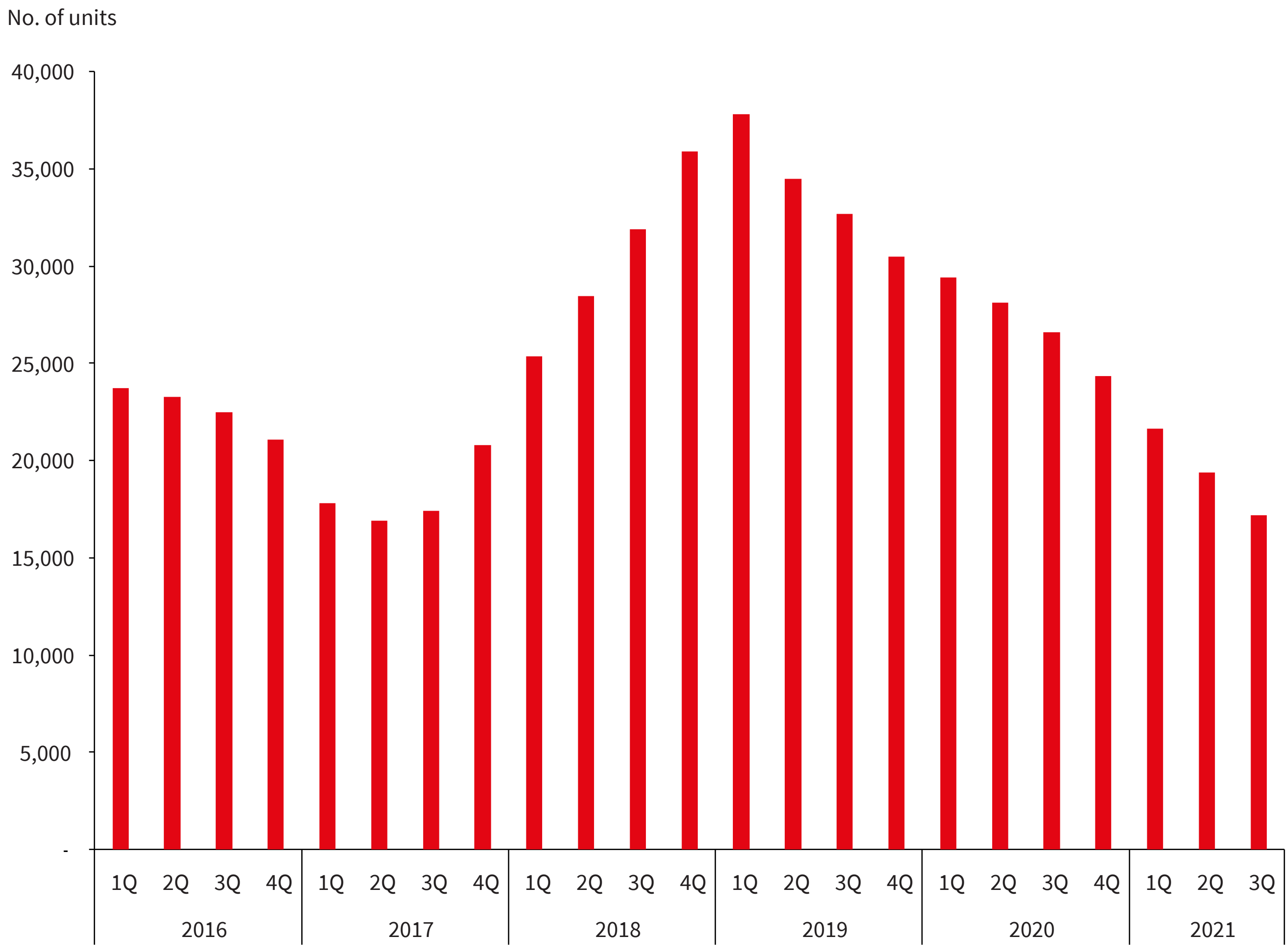
Drawing from the experience of the July 2018 measures, which saw a cooling-off period during which both buyers and sellers assessed the market followed by a gradual resumption of market activities, we expect the market to react in a relatively similar manner to the December 2021 measures.

Market activity is expected to slow in the short-term as buyers and sellers step back to assess the situation; after which, sentiment is likely to improve with the return of market confidence on the back of economic recovery and wage inflation.

Accordingly, private home price increases are expected to moderate in 2022; however, we do not expect a price correction given the current low unsold inventory, strong economic outlook and healthy wage growth. Unsold inventory in the private residential market is currently at a low level, standing at 17,165 units as of 3Q21, having dropped from a high of 37,799 units as of 1Q19.

Some easing of demand following the latest measures, coupled with the tighter supply would result in a healthier supply-demand balance and a more stable residential market, which will bode well for buyers.

Figure 7
Inventory of unsold private residential units (1Q16 - 3Q21)

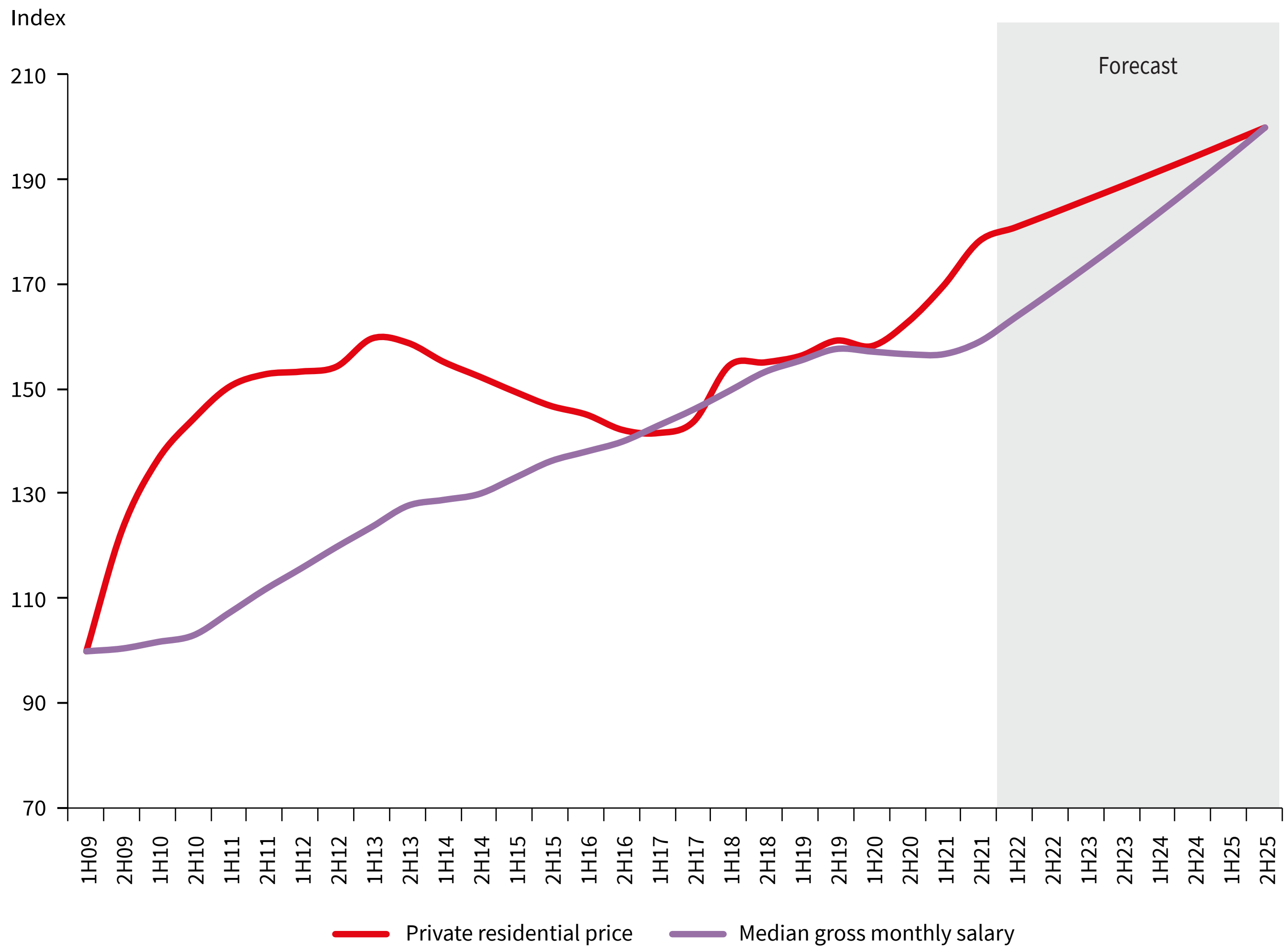


Source: URA Realis/JLL Research

The government has consistently intervened in the private residential market to ensure home prices rise in tandem with economic fundamentals. As home prices rebounded sharply after the economic downturn in 2009, outstripping economic growth and wage increases, a slew of cooling measures was introduced between 2009 and 2013 to prevent an asset bubble. When the trend reversed between 2013 and 2016, there was some relaxation in cooling measures in 1H17. In 2021, ABSD rates were raised, TDSR was reduced and HDB loan limits were lowered as home prices rose 10.6%, well ahead of economic growth and wage increases.

From 2022 to 2025, we expect Gross Domestic Product (GDP) growth to rise around 3% per annum on average and wages to rise 5-6% annually. Home prices could appreciate about 3% per annum on average, without additional intervention.

Figure 8
Residential property price index and median gross monthly salary index



Source: Singstat/URA Realis/JLL Research

05

Innovation and life sciences to drive values for industrial assets

Expect upgrades to business parks and logistics properties to meet future needs

COVID-19 has accentuated the adoption of Industry 4.0 initiatives (e.g., automation and IoT), spurred innovations across various industries and accelerated the growth of the life sciences (e.g., biomedical, pharmaceutical and medical technology) and logistics industries.

In the last two years, major pharmaceutical companies such as BioNTech, Sanofi and Thermo Fisher Scientific have announced plans to set up new production facilities in Singapore. Demand for laboratory space has also risen for COVID-19 research and testing purposes. For example, Acumen Diagnostics opened a new lab in September 2021. Located at Science Park Road, the new lab doubled the firm's capacity to process polymerase chain reaction (PCR) tests from 3,000 to 7,000 daily.

Riding on the growth potential of the life sciences industry, CapitaLand Development and Ascendas REIT recently announced the redevelopment of 1 Science Park Drive into a flagship Life Science and Innovation Campus within the Singapore Science Park. Designed to Green Mark Platinum standards, about 71% of the total available 112,500 sqm (about 1.2 million sq ft) of business park space (GFA) will be for life science R&D activities (i.e., wet-lab ready). Expected to be completed in 2025, the new campus will be part of a larger integrated precinct including 3 & 5 Science Park Drive.[2]

This will be one of two brand-new upcoming business park developments catering to the life sciences industry. The mixed-use Elementum in one-north by Ho Bee Land will provide about 380,000 sq ft of business park space (GFA) for biomedical sciences research and supporting activities when completed in 2023.

[2] Source: Ascendas REIT, "Redevelopment of 1 Science Park Drive" presentation, 15 November 2021

The growth of the life sciences industry also generated more pharmaceutical and vaccine storage and logistics requirements. Coupled with rising storage and distribution requirements from the online food and grocery delivery business, more funds have been channelled into the setup of cold chain and temperature-controlled premises in the past two years. For example, Petrone Group Asia Pacific Pte Ltd — partner of Petrone Group, one of the leaders in pharmaceutical distribution — announced the opening of a pharmaceutical logistics warehouse in May 2021. In September 2021, CEVA Logistics announced the opening of a new cold station within the Free Trade Zone of the Airport Logistics Park of Singapore to meet the demands of healthcare and pharmaceutical customers.

Last-mile logistics players and industrialists are also investing in automation and technology to cope with the business growth since the onset of COVID-19. For example, in 4Q21, Ninja Van announced the opening of its largest 80,000-sq ft automated hub in the Yio Chu Kang area, while J&T Express announced the opening of a new 82,000-sq ft fulfilment centre in the Penjuru area which is equipped with an integrated e-commerce warehouse management system.

Meanwhile, capital deployed to warehouse automated storage and retrieval systems (ASRS) — particularly in the food and beverage (F&B) industry — have also gained traction. For example, food manufacturer Tee Yih Jia's new factory and warehouse facility in Senoko will feature an automated cold storage facility with an ASRS, and is slated to open in 1Q22. The upcoming Fairprice Group Fresh Food Distribution Centre on Sunview Road will also feature a 40-metre-high ASRS and multi-temperature cold rooms when completed in 2022.

The COVID-19 pandemic has also led to heightened awareness of the need for food supply resilience. Coupled with Singapore's "30 by 30" goal to produce 30% of the country's nutritional needs locally and sustainably by 2030, this heightened awareness will drive more food innovation and distribution solutions, thereby generating demand for high-specification industrial facilities.

As industrial property landlords/owners, investors and occupiers continue to capitalise on the growth of the life sciences and logistics industries, we expect Singapore's industrial property stock to be refreshed as ageing and functionally obsolescent properties make way for new high-specification industrial developments. This will help to ensure that the real estate requirements of these growth industries are being met going forward.

Figure 9

Recent investments by life science companies in Singapore

Company	Investment (SGD million)	Description
BioNTech	Not disclosed	Fully integrated mRNA manufacturing plant, providing regional and global supply capacity; could be operational as early as 2023
Sanofi	~625 (Euro 400)	New vaccine production site for Asia; expected to be operational in 2026
Thermo Fisher Scientific	~175 (USD 130)	Sterile filling manufacturing plant for the region; expected to be operational by 2022/2023

Source: Company, JLL Research

Figure 10

Examples of upcoming industrial developments

Project name	Redevelopment of 1 Science Park Drive	Elementum	Tee Yih Jia Food Hub	Fairprice Group Fresh Food Distribution Centre
Location	Singapore Science Park	one-north	Senoko Road	Sunview Road
Developer/Owner	CapitaLand Development and Ascendas REIT	Ho Bee Land	Tee Yih Jia Food Manufacturing	NTUC Fairprice Co-operative Ltd
Total gross floor area (approx.)	1.2 mil sq ft	380,000 sq ft	1.1 mil sq ft	750,000 sq ft
Type of space	Business park	Business park	Factory and Logistics/ Warehouse	Logistics/ Warehouse
Main space usage	Life science R&D activities	Biomedical sciences research and supporting activities	Food production and storage	Fresh food storage and distribution
Expected completion	2025	2023	2022	2022

Source: JTC, JLL Research

06

Outstanding REIT hub to attract new listings with strong international sponsors

New REITs with sponsors from US and Japan to widen Singapore's lead as a REIT hub

With 42 S-REITs and property trusts listed totalling over USD 80 billion in market capitalisation, Singapore's REIT market has matured into global REIT hub. As of December 2021, over 85% of S-REITs and property trusts owned properties outside of Singapore across the globe. There are 17 S-REITs in which the real estate portfolios comprise entirely overseas properties. REIT sponsors include international asset managers such as Cromwell, Manulife and Lendlease.

In the last two months of 2021, the S-REIT market welcomed two key REIT listings:

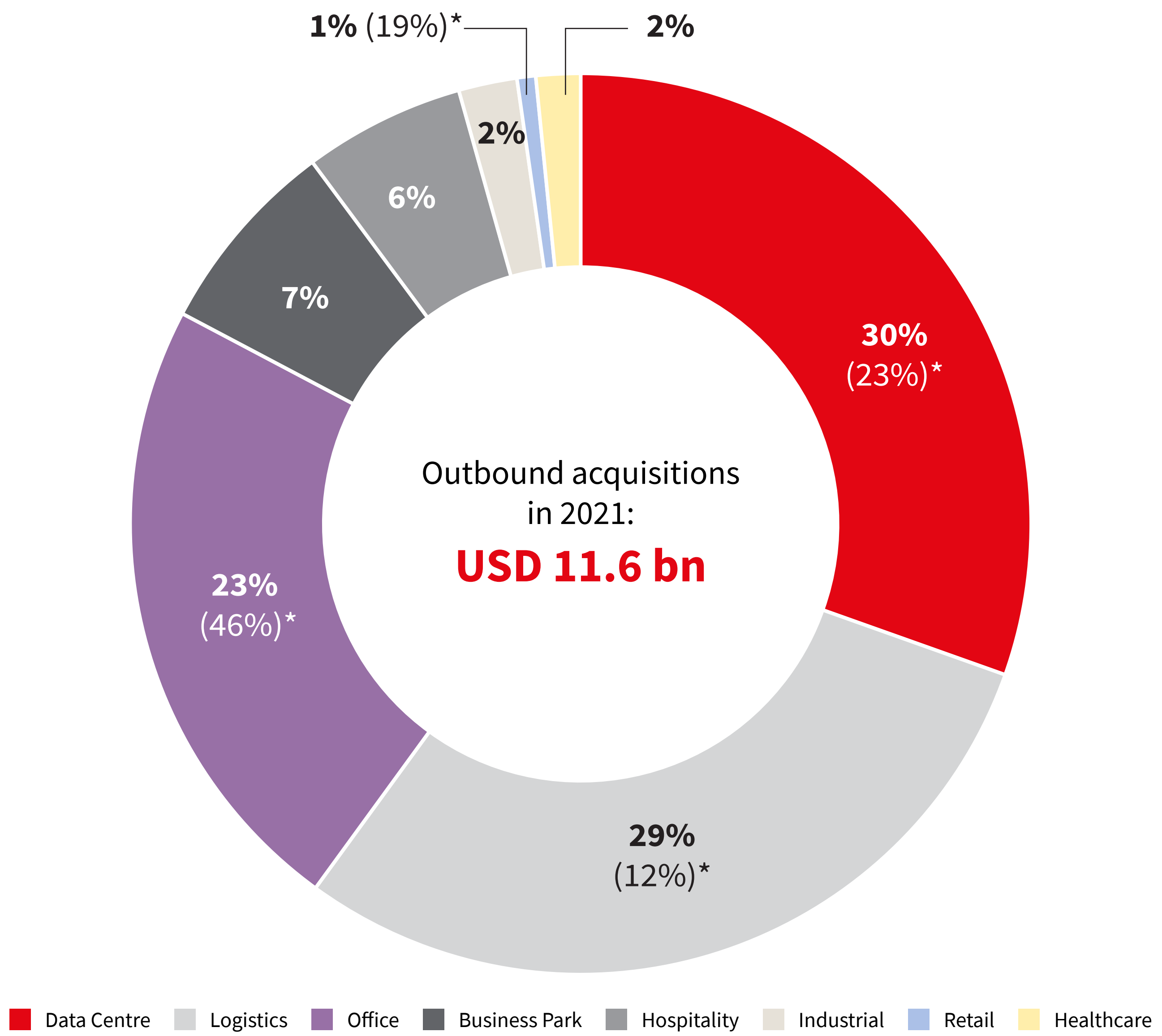
- **26 November 2021** - Daiwa House Logistics Trust listed on Singapore Exchange (SGX) with an initial market cap of USD 396 million. The USD 720-million portfolio consists of 14 logistics assets in Japan. Its sponsor, Daiwa House, is one of the largest construction and real estate development companies in Japan.
- **6 December 2021** - Digital Core REIT listed on SGX with an initial market cap of USD 977 million. The portfolio consists of USD 1.4 billion worth of US data centres. Its sponsor, Digital Realty, is the largest owner, operator, developer and acquirer of data centres globally. It is also one of the ten largest US-listed REITs, with a market capitalisation of around USD 44 billion.

Including the above listings, Singapore REITs have invested a total of USD 11.6 billion in assets outside Singapore in 2021. A bustling REITs marketplace will bring in a more vibrant economy.

Mergers have also helped pave the way for more international acquisitions. Post-merger, CapitaLand Integrated Commercial Trust acquired USD 540 million of offshore assets. The proposed merger of Mapletree Commercial Trust and Mapletree North Asia Commercial Trust should equip the enlarged REIT with greater scale and capacity to grow more swiftly into China, Japan and Korea. We expect Singapore REITs outbound investments to exceed USD 12 billion in 2022.

In a small and open economy like Singapore, where gross exports and imports of goods and services are more than 300% of GDP and domestic expenditure has a high import content, the exchange rate has more influence on inflation than the interest rate. As such, Singapore's monetary policy is centred on managing the

Figure 11
Outbound acquisitions in 2021



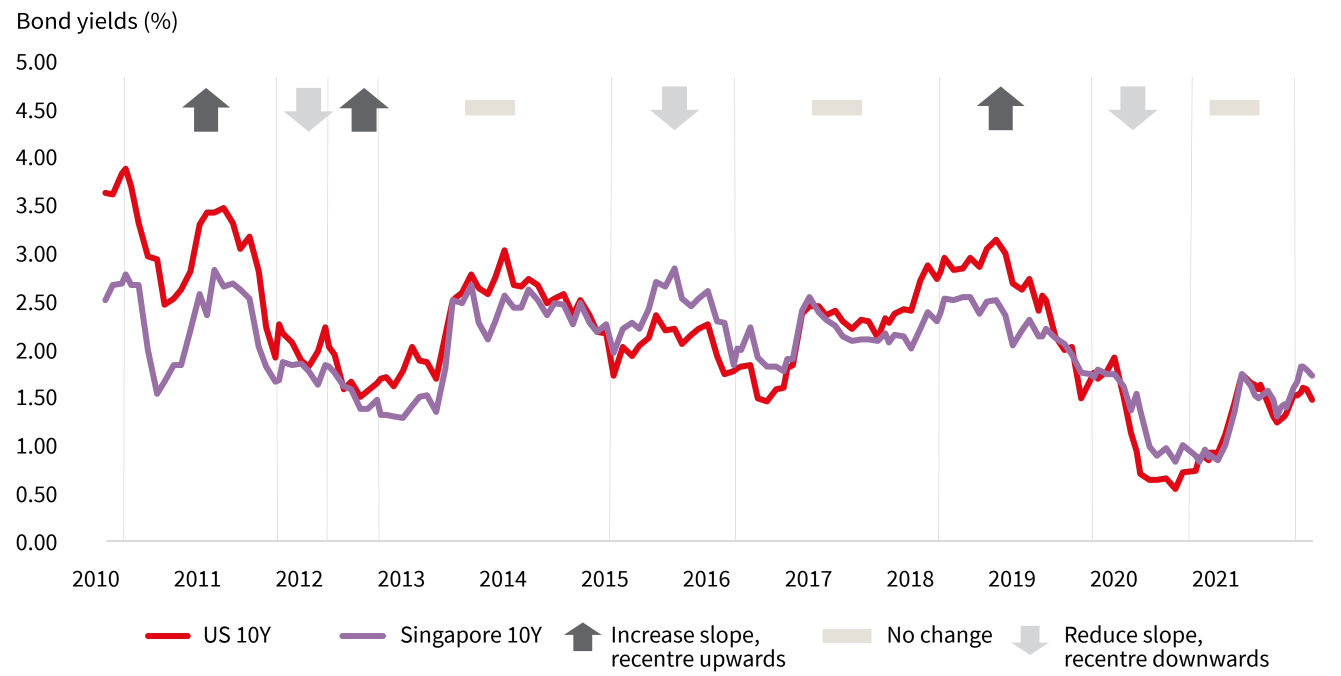
Source: JLL capital markets research, REITAS; *Numbers in brackets indicate 2020 statistics

Singapore dollar (SGD) against a trade-weighted basket of currencies known as the Singapore dollar nominal effective exchange rate (S$NEER). In each review, changes can be made to the following: (i) the slope of the policy band (i.e., rate of appreciation), (ii) the width of the policy band, and (iii) the level at which the policy band is centred.

Amid rising inflation across the globe, it is likely that the Monetary Authority of Singapore (MAS) will adjust the slope upwards to allow the strengthening of the SGD against the S$NEER. When MAS allows the SGD to appreciate, SG 10Y bond yields tend to dip lower than US 10Y bond yields. This should help keep Singapore's interest rates low, mitigating the impact of rising global rates on our REIT market and on real estate capital values.

Figure 12

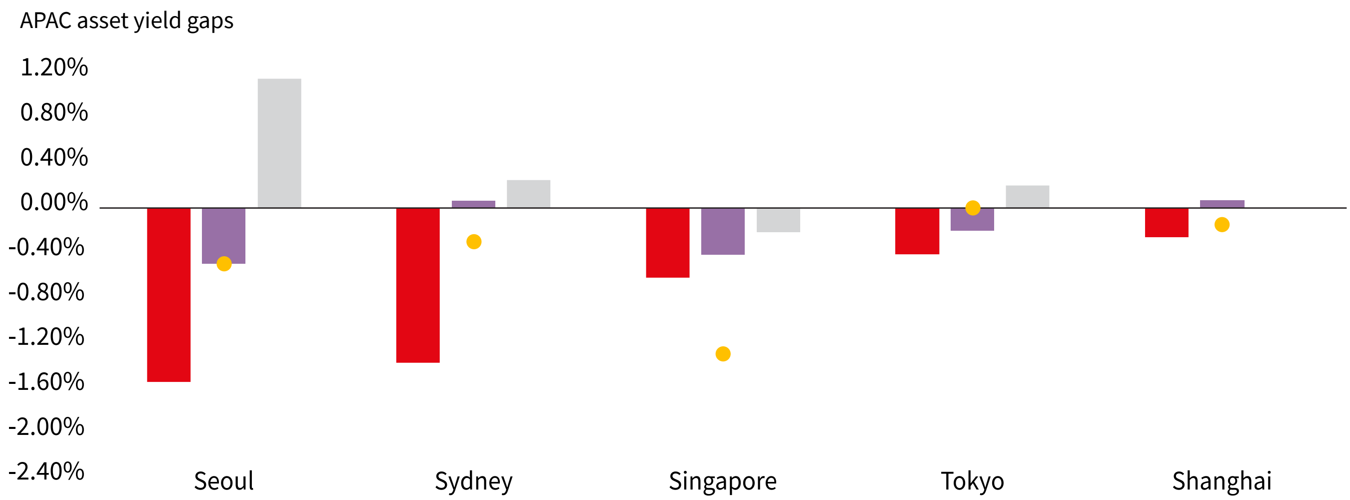
Changes in monetary policy decisions affect SG 10Y bond yields



Source: Monetary Authority of Singapore, Capital IQ

Figure 13

Singapore asset yield gaps compressed the least amongst APAC countries



Source: JLL Capital Markets Research

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